

Asset Class Glossary: Fixed Income
Policy: **Active International Fixed Income - Externally Managed**
September 16, 2005

Bond

A unit of debt, \$1,000 of principal or par amount. For 200 years municipal bonds were sold in \$1,000 denominations. Since the mid-1970s the minimum bond denomination has been \$5,000; nevertheless, "A Bond" is bought, sold, referred to, and priced as if it were \$1,000.

Currency

The monetary unit of a sovereign state.

Custodian

A bank or other financial institution that provides custody of stock certificates and other assets of an institutional investor.

Derivative

An instrument whose value is based on the performance of an underlying financial asset, index, or other investment. Classes of derivatives include futures contracts, options, currency forward contracts, swaps, and options on futures.

Emerging Market

Countries not classified as having developed bond markets by internationally recognized index providers.

External Manager

An outside money management firm retained under contract by CalPERS.

Fitch Ratings

A nationally-recognized credit rating agency that grades the investment quality of bonds. The ranges extend from the highest investment quality, which is AAA, to the lowest credit rating, which is D. Securities rated BBB- or greater are considered investment grade. Securities rated BB+ or below are considered speculative.

General Pension Fund Consultant

An individual or organization that provides specialized professional assistance to the CalPERS Board of Administration in determining the pension fund's asset allocation model or optimal combination of investments in order to maximize risk-adjusted investment returns in a manner consistent with the State's long-term pension liabilities.

Global Debt

Debt issued by a national government, subnational entity or corporation denominated in the U.S. dollar or other major currency and issued in major markets, typically New York or London, under the laws of those markets.

Investment Grade

A ~~minimum~~ credit rating of at least Baa3 by Moody's Investor Service or BBB- ~~for~~by Standard & Poor's Corporation, ~~and~~ or BBB- by Fitch. Investment grade ratings apply to issuers whose financial risk is relatively low and the probability of future payment relatively high.

Issuer

A state or local unit of government that borrows money through the sale of bonds and/or notes.

Local Currency Debt

Debt issued by a national government, subnational government or corporation denominated in local currency and issued in the local market, under local laws.

Monetary Policy

Refers to the management of the money supply to affect the macro economy through movements in the level of short-term interest rates, such as the Fed Funds and the Discount Rate, or supplying more credit to the banking system through open market operations.

Moody's Investors Service

A nationally-recognized credit rating agency that grades the investment quality of bonds ~~in a 9-symbol system~~. The ranges extend from the highest investment quality, which is Aaa, to the lowest credit rating, which is C. Securities rated Baa3 or greater are considered investment grade. Securities rated Ba1 or below are considered to be speculative.

~~Permissible Country Debt Policy~~

~~The System's guidelines for permissible country debt investments, as most recently amended.~~

~~Salomon Smith Barney Non-U.S. World Government Bond Index~~**Lehman Brother International Fixed Income Index**

The index covers the available market for foreign currency-denominated government bonds. It contains an all-inclusive universe of institutionally traded bonds. It includes all fixed rate bonds with a remaining maturity of one year or longer with amounts of at least the equivalent of U.S. \$250 million outstanding. The index excludes floating or variable-rate bonds, and private placement-type securities. The Index provides an accurate, replicable fixed income benchmark for market performance. It measures the total return performance of the foreign currency-denominated government bond market. The index captures returns in U.S. dollars.

Security

Instrument that signifies an ownership position in a corporation (stock), a creditor relationship with a corporation or governmental body (bond), or rights to ownership such as those represented by an option, subscription right, and subscription warrant.

Standard & Poor's

A nationally-recognized credit rating agency that grades the investment quality of bonds in a 10-symbol system. The ranges extend from the highest investment quality, which is AAA, to the lowest credit rating, which is D. Securities rated BBB- or greater are considered investment grade. Securities rated BB+ or below are considered speculative.